The Accountant's Office

Judith A Cobb, EA
Enrolled Agent
Accountant
Notary Public

Office Phone (608) 791-6910
E-mail: tao@centurytel.net

1353 Caledonia Street
PO Box 2938
La Crosse WI 54602-2938

2013 TAX LETTER

I started in December to write a year end letter that might be informative without being overwhelming. However, there is so much to try to explain that I will most certainly fail the 'overwhelming' part. And, I also failed at getting this done before year end. Sorry-I'm just an overwhelmed messenger!!

Your 2013 prescheduled tax appointment is listed on the back of this organizer. The Taxpayer Information, Address & Status, and Dependents sections are important to us so we ask that you complete at least that much of the organizer IF there are changes from last year. And, again, if your tax situation is similar to prior years, please feel free to drop off your taxes rather than wait for an appointment. I have a trainee who would find the opportunity to 'prepare' your return invaluable, especially since the 'teacher, Judy' will review and critique every return! And, as always, if the prescheduled appointment needs to be changed or cancelled, ***please*** *call us as our time is very valuable during the next 3 months. We again have low cost bank products to assist with your payment needs.*

Changes for 2013

When I wrote last year's newsletter, Congress was not in session and I reported a fair amount of expired provisions. The American Taxpayer Relief Act of 2012 was signed into law by the President on **January 2, 2013** (too late for any 2012 planning!). Some of the highlights of this bill include some permanent extensions of the Bush-era tax cuts. However, the bill also increases income taxes and limits deductions and exemptions for some "high-income" individuals. The following are the provisions I think are most relevant.

Permanent:

* Personal Exemptions Deduction Phaseout returns – higher income taxpayers will lose 2% of the exemption amount for each $2,500 (rounded up) of adjusted gross income exceeding certain ranges

* Itemized Deduction Phaseout returns – deductions will be reduced by the lesser of 3% of adjusted gross income exceeding certain ranges or 80% of itemized deductions NOT including medical expenses, investment expenses, nonbusiness casualty & theft losses, or gambling losses

* Capital Gains Rates - **Income Limits for Capital Gains & Dividend Tax Rates:**

Capital Gain Tax Rate	Single Taxpayer	Married Filing Jointly	Combined Tax Rate with NEW Medicare Surtax
0%	$0-$36,250	$0-$72,850	0%
15%	$36,251-$200,000	$72,850-$250,000	15%
15%	$200,001-$400,000	$250,001-$450,000	18.8%
20%	$400,001 +	$450,001 +	23.8%

* Alternative Minimum Tax (AMT) Exemption - inflation adjusted thru 2012 with a inflation adjustments for future years

* Dependent Care Credit - up to $3000 (1 child) or $6000 (more than 1 child) eligible expenses

* Student Loan Interest - unlimited years write off of up to $2500, but high income phase-outs and inflation adjusted

* Marriage Penalty relief – the married filing jointly standard deduction is 200% of the single deduction

* Coverdell ESA - the annual contribution limit continues at $2,000 per eligible child

* Adoption Credit & assistance - $10,000 level adjusted for inflation ($12,970 for 2013) but no refundable portion

Extended thru 2017:

* Child Tax Credit - $1,000 per child

* American Opportunity Education Credit - up to $2,500 per qualifying student, 40% can be refundable, & certain required materials and supplies continue to be eligible expenses

* Earned Income Credit – increased income ranges and increased credit amounts for 3 or more qualifying children

Extended thru 2013:

* IRA to charity direct transfer

* Residential Energy Credit - total credit is limited to $500 for all tax years after 2005 (windows $200)

* Teacher $250 expense deduction

* Tuition Deduction - $4,000 adjustment to income election instead of education credits

* State & Local sales tax deduction - an itemized deduction for sales tax instead of state income taxes

* Premiums for Mortgage Insurance – premiums paid on contracts commencing after 2006 deducted as mortgage insurance

In addition to the changes made by the American Taxpayer Relief Act of 2012, prior legislation has some effective dates that will affect taxpayers for the first time in the 2013 tax year. Some of these new rules apply to all taxpayers and many apply only to high-income-earners.

Medical expense deduction – reduced. The amount of medical expenses an individual can deduct (on Schedule A, Form 1040) in a tax year is the amount by which his/her unreimbursed payments for those expenses exceed a certain level of his/her adjusted gross income (AGI), for the year. For taxpayers under age 65, this "floor" rises to 10% of AGI for 2013. However, if you or your spouse have reached age 65 before the end of the tax year, the 7.5% floor applies through 2016.

Simplified home-office deduction. Beginning in tax year 2013, taxpayers may use a simplified option when figuring the deduction for business use of their home. In an effort to reduce the administrative, recordkeeping, and compliance burdens for the qualified business use of a residence, the IRS now provides for a safe harbor method under which an individual determines his/her allowable deduction for the qualified business use of a home by multiplying a prescribed rate ($5) by the square footage of the part of this residence that is used for business purposes, not to exceed 300 square feet, for a maximum deduction of $1,500.

For purposes of the simplified option, "home" means a dwelling unit (owned or leased) that is used by the taxpayer during the tax year as a residence. Note, however; this simplified option does not change the criteria for who may claim a home office deduction. It merely simplifies the calculation and recordkeeping requirements of the allowable deduction.

High-Income-Earners

0.9% Medicare (hospital insurance) tax. New for 2013, the employee portion of the Medicare tax increases from 1.45% to 2.35% on wages in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately). The additional 0.9% Medicare tax is also imposed on SE income that exceeds these thresholds.

3.8% surtax on investment income. Also new for 2013, an unearned income Medicare contribution tax is imposed on individuals, estates, and trusts. For an individual, the tax is 3.8% of the lesser of either (1) net investment income or (2) the excess of modified adjusted gross income (MAGI) over the threshold amount.

The threshold amounts are as follows: for a joint return or surviving spouse, $250,000; for a married individual filing a separate return, $125,000; and $200,000 for all others. The surtax applies to a much lower amount for trusts and estates than for individuals.

Investment income is the sum of (1) gross income from interest, dividends, annuities, royalties, and rents (other than income derived from any trade or business to which the tax does not apply); (2) other gross income derived from any trade or business to which the tax applies; and (3) net gain (to the extent taken into account in computing taxable income) attributable to the disposition of property other than property held in a trade or business.

REMEMBER-I'm just the messenger!

Additional Information

Standard mileage rate. The following rates are applicable for the 2013 and 2014 tax years:

	2013	2014
Business	$.565	$.56
Medical	.24	.235
Moving	.24	.235
Charitable	.14	.14

Mandatory Health Care coverage in 2014. The Affordable care Act (ACA) was enacted in 2010 and requires most residents of the US to obtain health insurance beginning in 2014. Under the ACA, the federal government, state governments, insurers, employers and individuals are given shared responsibility to reform and improve the availability, quality and affordability of health insurance coverage in the United States. Starting in 2014, the individual shared responsibility provision calls for each individual to have minimum essential health coverage for each month, qualify for an exemption, or make a payment when filing his or her federal income tax return.

The provision applies to individuals of all ages, including children. The adult or married couple who can claim a child or another individual as a dependent for federal income tax purposes is responsible for making the payment if the dependent does not have coverage or an exemption.